

### 3. Financial Sector Reforms Including Financial Inclusion

#### I. Step Implemented by Reserve Bank of India

**(A) The Status of Pursuit of Medium Term Objective of Reducing Preemption Through both CRR and SLR :** SLR has been brought down to the statutory minimum. Progress in reduction in CRR continues to be closely related to the pace of reduction in fiscal deficit, monetary developments vis-a-vis growth in real output and uncertainties in forex markets.

**(B) The Medium Term Objective of Reducing Preemption and Imparting a Greater Flexibility :** Reducing preemption and imparting a greater flexibility and simplification of procedures continues to be at the top of the RBI's agenda for reform.

**(C) Deregulation of Interest Rates :** The reform objectives in terms of greater deregulation and rationalisation of small saving rates etc. have been achieved to a significant degree. Further progress in deregulation, which in turn is dependent on credibility of price-stability.

**(D) Prudential Requirements Including Those Relating to Weak Banks, Capital Adequacy etc. :** The public sector banks to be on a different footing from private sector banks and approaches for reform do vary. In any case impressive progress has been made in imparting a supervisory environment conducive to enhancing efficiency while maintaining stability of the system.

**(E) Universal Banking :** The RBI's policy framework in regard to approach to universal banking has already been spelt out. An approach to reform of urban cooperative banks and rural cooperatives has been drawn up with the recommendation of the **Madhava Rao Committee and the Jagdish Kapoor Committee**.

**(F) Improvements in Transparency, Disclosure Standards as also Accounting Standards to Attain the Best International Practices :** Since 1998, there have been dramatic developments in this sphere, especially, in codifying the international practices and assessing the domestic standards. RBI has put out for discussion, several reports of Advisory Groups on a variety of Standards and Codes and a road map for bringing about changes is bound to evolve out of these reports.

- (1) Transparency in Monetary and Financial Policies,
- (2) Payments and Settlement System,
- (3) Banking Supervision and
- (4) Bankruptcy Law.

**(G) Credit Delivery System :** Several procedural initiative have been taken in this regard.

- (1) The fast growing services sector and
- (2) The critical 'peoples sector' vis. agriculture on which a large part of our population depends.

**(H) Improvement in Financial Markets :** Over the last three years, impressive growth can be observed in all the three segments of financial markets that are of direct concern to the RBI viz.

- (1) Money

- (2) Government Securities and
- (3) Forex.

## **II. Measures Implemented by Government of India**

- (1) Fiscal deficit,
- (2) Legislative changes and
- (3) Structure issue affecting public sector banks

## **III. Measures Pertaining to Implementations by Banks**

- (1) Internal control system
- (2) Placement and work practices
- (3) Flexibility in hiring people and
- (4) Use of technology in banks.

### **Phase II of Financial/Banking Sector Reform (1997)**

While the first phase of banking sector reforms contained in the report of Narasimham Committee have been implemented, the second phase of reforms in the Banking sector is currently under implementation.

#### **The Report of Narasimham Committee**

In early 1997, the finance minister Mr. Chidambaram requested Mr. Narasimhan to chair another committee to review what had been accomplished and to suggest a new vision for our banking industry. In April, 1998 Mr. Narasimham submitted his blue print to the Government. Many of these recommendations have been accepted and are under process of implementation. Excerpts from the views expressed by a former Finance Minister Mr. P. Chidambaram recently on the subject in a lecture delivered by him at the Administrative Staff College, Hyderabad are reproduced here under.

**1. Government should Divest Its Equity in PSBs :** Government should reduce its equity holding to below 51% in all banks. Government plus the RBI's holding. Banks must become Board managed companies subject, of course, to effective supervision, regulation and monitoring by a single agency. This is the central issue in banking reform needless to say, the requirement of the hour is a political decision.

**2. Net NPA to be Pegged Down to the Level of 5% by 2000 and 3% soon thereafter :** The Narasimham Committee has made many other useful suggestions. In particular, the goal of having a NNPA for all banks at around 5% by the year 2000 and 3% soon thereafter must inform our policies and strategies for reforms. This will call for sustained measures to tackle the problem of backlog NPAs on a one-time basis.

**3. The capital adequacy norm of 8% must be increased to 10%** but the additional capital requirements should not come from the Budget but must be raised in the capital market. (CAR already increased to 9% from March, 2001.)

**4. The Problem of High Interest Rates :** Policy-induced pressures on the real interest rate must be removed. The effective rates of return offered by government's small savings schemes, relief bonds and provident funds are too high and they put a competitive pressures on the real interest rate on bank deposits.

**5. Debt Recovery :** The Narasimham Committee has reiterated its suggestion on the creation of a separate bad debts recovery institution. The moral hazard argument is too familiar to be dismissed summarily. The objectives of the existing Debt Recovery Tribunals and the Settlement Advisory Boards must be combined and create a single authority for each group of banks, composed of a banker and a judge. This authority could be tasked to promote settlements as well as decree suits and direct recoveries.

**6. The Rural Credit System is in a Shambles :** The second item on the agenda for financial sector reforms should be revamp of rural credit system. NABARD's resources base has been augmented substantially. Successive Budgets have also provided about Rs. 400 crore for the revitalisation of 50 Regional Rural Banks. The scheme of Rural Infrastructure Development Fund (RIDF) under the aegis of NABARD must be continued.

**7. Reform of the Insurance Sector :** The Insurance industry in India has been a public sector monopoly. The Malhotra Committee gave us a blueprint for its liberalization.

**8. Infrastructure Financing :** There is a crucial need for innovation in relation to infrastructure financing. Government guarantees may have been needed in the initial stages of attracting private investment but they have run their course. We have much to learn from countries like Chile and Singapore. Singapore is a state-based system, while in Chile the system is being increasingly privatized. There is need for new financial instruments like asset-backed securitisation and municipal bonds.

**9. Regulatory Authorities :** There is the special need for regulation and supervision in world of capital mobility. Effective regulation and supervision must be based on a transparent set of rules, as close as possible to international standards, combined with free and timely availability of information, and strong, proactive action against those breaking the rules.

#### **Financial Regulators in India (other than RBI, IRDA)**

##### **Securities and Exchange Board of India**

The Securities and exchange Board of India (SEBI) was first established in the year 1988 as a non-statutory body for regulating the securities market. It became an autonomous body on 12 May 1992 and given statutory powers in 1992 after the SEBI Act 1992 was passed by the Indian Parliament.

The management of Board of SEBI consists of the following members:

- Chairman
- 2 members from amongst the officials of the Central Government dealing with Finance
- One member from the Reserve Bank
- 5 other members of whom at least 3 shall be the whole-time members, to be appointed by the Central Government

The chairman of SEBI is appointed by Central Government.

The various functions of SEBI are:

- To protect the interests of investors in securities market
- To promote the development of securities market
- To regulate the business in stock exchanges and any other security markets

- To register and regulate the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets
- To register and regulate the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies
- To register and regulate the working of venture capital funds and collective investment schemes including mutual funds
- To promote and regulate self-regulatory organizations
- To prohibit fraudulent and unfair trade practices relating to securities markets
- To promote investors' education and training of intermediaries of securities markets
- To prohibit insider trading in securities
- To regulate substantial acquisition of shares and take over of companies
- To conduct research for efficient working and development of securities market

A committee chaired by **N. K. Mitra** submitted its report on investor protection in April 2001.

#### **Pension Fund Regulatory and Development Authority**

The Pension Fund Regulatory and Development Authority (PFRDA), a statutory body, is the pension regulator of India which was established by Government of India on August 23, 2003 and was authorized by Ministry of Finance, Department of Financial Services. Upon introduction of the PFRDA Bill by the Government of India in the Parliament of India and the subsequent passage of the PFRDA Act in 2013, the Authority became a Central Autonomous Body.

The functions of PFRDA are:

- to promote old age income security by establishing, developing and regulating pension funds.
- to protect the interests of subscribers to schemes of pension funds.

#### **Forward Markets Commission (FMC)**

The Forward Markets Commission was the chief regulator of the commodity (MCX, NCDEX, NMCE, UCX etc.) of the Indian futures market. The main aim of this body was to advise the Central Government on matters of the Forwards Contracts Act, 1952. The FMC was merged with SEBI in 2016.

#### **Insolvency and Bankruptcy Board of India (IBBI)**

The Insolvency and Bankruptcy Board of India (IBBI) is the regulator for overseeing insolvency proceedings and entities like Insolvency Professional Agencies (IPA), Insolvency Professionals (IP) and Information Utilities (IU) in India. It was established on 1 October 2016 and given statutory powers through the Insolvency and Bankruptcy Code, which was passed by Lok Sabha on 5 May 2016. It covers Individuals, Companies, Limited Liability Partnerships and Partnership firms. The new code will speed up the resolution process for stressed assets in the country. It attempts to simplify the process of insolvency and bankruptcy proceedings. It handles the cases using two tribunals like NCLT (National Company Law Tribunal) and Debt recovery tribunal.